

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 PARIS 007301

SIPDIS

STATE FOR EB/CIP AND INR/B
USDOC FOR NTIA AND ITA
FCC FOR INTERNATIONAL
STATE PLEASE PASS TO USTR

E.O. 12958: N/A

TAGS: [ECPS](#) [ETRD](#) [FR](#)

SUBJECT: France: Telecom and Information Technology Update

NOT FOR INTERNET DISTRIBUTION

[1](#). This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

Contents:

- GOF hopes for "dialogue" on internet governance (para 2)
- France holds its own on broadband growth, but not in Europe's top tier (para 3)
- Another (virtual) mobile operator expected soon (para 4)
- Huge demand for WiMax licenses creates new headache for regulator (para 5)
- Orange makes deals to offer mobile customers more content (para 6)
- ARCEP announces three new bureau chiefs (para 7)
- Government stake in France Telecom falls to 33.1% (para 8)
- France Telecom buys out Orange Slovakia (para 9)
- Regulator submits relevant market analysis for fixed telephony (para 10)

[1](#)2. (SBU) GOF hopes for "dialogue" on internet governance: EconOff met with French Ambassador and head of the Foreign Ministry office for WSIS preparations Jean-Michel Hubert on October 25 to discuss the current impasse between the USG position and the EU/UK proposal on internet governance. Hubert made several points (septel), which focused mainly on key words and their definitions. He noted in particular that the word "oversight" appeared the four principles released by the USG in June 2005, but not in the EU/UK proposal. He also noted that the word "regulation" has different meanings in English (both making/defining rules and implementing them) and in French (it means only the latter). Indeed, the word regulation has a negative connotation in English, whereas many French politicians use it as a kinder, softer substitute for the word governance, which has a more heavy-handed connotation. However, Hubert's main point during the discussion came down to whether the USG will entertain a dialogue on the subject of internet governance. He and the GOF clearly hope that the U.S. position will not forestall a dialogue (a word he equated with negotiation) on the subject.

[1](#)3. (U) France holds its own on broadband growth, but not in Europe's top tier: According to recently released June 2005 OECD statistics, France ranks fourteenth among the 30 OECD member countries in terms of broadband penetration (12.8% of French inhabitants), above the OECD average, but well below the top five cut-off point of 20%. France came in just behind the U.K. (13.5%) and roughly mid-way between its neighbors Belgium (18.2%) and Germany (10.2%). France's growth rate (net increase Q2 2004 to Q2 2005) for broadband penetration was a respectable 4.77%, which was the tenth fastest among the same group of 30 OECD member countries. GOF efforts to promote broadband availability and use have clearly made headway -- enough to leave policy-makers satisfied perhaps, but not enough to gain any significant notice, much less, praise among France's OECD peers.

[1](#)4. (U) Another (virtual) mobile operator expected soon: Entrepreneur Richard Branson is reportedly in talks with the Carphone Warehouse Group, Europe's largest independent mobile phone retailer, about forming a joint venture to bring Virgin phones to customers across France. On October 24, the companies said they hoped to form a Mobile Virtual Network Operator (MVNO), which would buy airtime wholesale and offer services by piggy-backing over the network of dominant mobile phone operator Orange. Although the joint venture will trade as Virgin Mobile, it will build on Carphone's regional mobile operation, known as Omer, in the northwest region of Brittany. Under the brand name MVNO Breizh Mobile, Omer has built up its customer base in France to some 48,000 clients, which it hopes to grow to 100,000 by early 2006. Industry sources familiar with talks said the Virgin venture was likely to be 50% owned by Carphone and 50% by Virgin Mobile and parent Virgin Group. A launch, if negotiations go according to plan, is expected in the first half of next year. The French regulator ARCEP had hoped to bring more competition to the French mobile market through MVNOs. However, earlier this year, the European Commission

struck down an ARCEP move to force operators (FT's Orange, SFR owned by Vivendi Universal and Vodafone, and Bouygues Telecom) to open their networks to lower-cost MVNOs, saying it was unnecessary. As a result, MVNOs have had limited success in France. Swedish telecoms operator Tele2 set up a French MVNO using Orange's network, but company officials estimated that virtual network operators had captured less than one percent of the market since Germany's Debitel signed one of the first French MVNO deals with SFR last year.

15. (U) Huge demand for WiMax licenses creates new headache for regulator: Surprised by the outpouring of demand across a broad spectrum of businesses for Wimax, telecom regulator ARCEP now must decide among 175 candidates, which will get the two available licenses. Of the 175 total, 32 have requested national licenses, 67 come from townships and other local government groups (20 from regions and 39 from departments, which cover smaller areas). Observers say that the regulator is overwhelmed with the prospect narrowing such a large field and hopes to avoid what happened in 2000 when local radio loop licenses were awarded to the largest operators, which was described as a disaster by former ARCEP board member Dominique Roux, who said that the license winners had lied and were the worst candidates. As a result, many start-ups not only failed to get licenses, but failed entirely as business ventures. The selection process which was a modified "beauty contest" added an financial auction component to weed out candidates. According to ARCEP board member Gabrielle Gauthey, the trauma of the bad experience with local radio loop licenses naturally leads one to consider a pure auction system. The only decision about the selection process that has clearly been taken so far is that licenses will be attributed region by region, despite protests from local government groups, which had pushed for distribution by departments.

16. (U) Orange makes deals to offer mobile customers more content: Canal Plus, the largest French film and television group, has teamed up with France's largest mobile phone operator, Orange, to commercialize content for mobile phones. Canal Plus is the first media group to wager on new specially adapted television formats for mobile phones and the group hopes to distribute it widely among French cell phone users. Betting one thing that is bound to be a draw, Canal Plus and Orange will share rights to distribute soccer and rugby sporting events. Ironically, Canal Plus is a subsidiary of Vivendi Universal, which owns over 50% of SFR, Orange's largest competitor. As a result of a second deal, starting October 17, French consumers were able to download Madonna's new single "Hung Up" on their cell phones before its physical release. This world premiere initiative is part of a partnership between Warner Music, France Telecom and Orange. The offering is part of an exclusive national multi-platform marketing campaign, which supports Madonna's new album, which will be released internationally on November 14.

17. (U) ARCEP announces three new bureau chiefs: National regulatory authority for electronic communication and postal services announced three new "chefs de service" or bureau chiefs on October 20. From her previous post as President of the Administrative Tribunal and before that a court reporter in the Paris Appeals Court, Joelle Adda takes over the legal affairs division. Isabelle Kablas-Langlois will be in charge of the economic and planning division, bringing with her a wealth of experience from France's leading agency for economic statistics and analysis, INSEE, as well as working on competition and regulatory issues at French energy utility Electricite de France. Kablas-Langlois has also published several articles on patents and innovation. The new third division chief, Guillaume Lacroix, will focus on postal regulation.

18. (U) Government stake in France Telecom falls to 33.1%: In early-September, France Telecom announced a new share offering that dilutes the GOF stake considerably. The three billion euros (\$3.7 billion) of new shares offered helped to finance its acquisition of Spanish wireless operator Amena, which was announced last July. The deal comes amid a number of large share offerings in France this year, most of which are aimed at helping the state cut debt. In June, the government sold 3.4 billion euros of FT shares; in July, it raised 2.5 billion euros through a partial privatization of Gaz de France SA; and within the next several weeks, the GOF is expected to launch a partial privatization of the world's largest power company, French utility Electricite de France. Before the share offering, the GOF stake in France Telecom was 34.9% and now, since the GOF did not buy any of the new shares, its stake is down to 33.1%, which still gives the French government a blocking minority at shareholder meetings. This new level might have been psychologically important to some, since it is no more than "just enough" to maintain an ability to block controversial moves -- however, it occurred with relatively little fan fare in early September as the French were returning to work after summer

vacations. This was in stark contrast to a general strike on October 4 and a dramatic ferry hijacking and continuing protests in some towns and cities in southern France after a GOF move to partially privatize the Corsican ferry company SNCM.

19. (U) France Telecom buys out Orange Slovakia: According to business news reports on October 21, France Telecom will pay \$628 million to buy all shares of Orange Slovakia, the leading cell phone operator in Slovakia. FT already holds a 63.8% stake in the company, whose 2.3 million customers make up 57% of the nation's cell phone market, the French company said Thursday. Among the sellers of the remaining shares of Orange Slovakia is a consortium of financial investors led by AIG New Europe Fund. Reportedly, the deal should be completed before yearend.

10. (U) Regulator submits relevant market analysis for fixed telephony: ARCEP submitted to the European Commission draft decisions concerning retail (access and communications) and wholesale markets (call origination, carriage and call termination), excluding call termination services to alternative fixed operators, as well as geographic call termination markets of alternative fixed operators. Following recent public consultations, ARCEP modified a number of elements in its draft decision on its relevant market analysis for fixed telephony, whose three main points were: (a) for the retail markets on which France Telecom has significant market power: France Telecom will be exempted from having to submit its retail prices for approval, (b) for the wholesale carriage markets on which France Telecom has significant market power: France Telecom will be subject to pricing controls for services offered, and (c) for the wholesale call termination markets of alternative fixed operators on which these operators have significant market power: they will be obliged to provide access. The European Commission is expected to soon complete their review of these decisions and provide observations.

STAPLETON